

## Message Text

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TAGS: PFOR, ECON, EINV, NI

SUBJECT: INDIGENIZATION - FMG ROUTS THE BANKS

REF: (A) LAGOS 10533, (B) LAGOS 8447

SUMMARY: CHASE MANHATTAN AND FIRST CHICAGO HAVE SUBMITTED TO FMG INDIGENIZATION DEMANDS. ALL OTHER MERCHANT BANKS, EXCEPT CITIBANK WHICH IS PULLING OUT (REF A), ALSO WILL TURN OVER 60 PERCENT EQUITY TO NIGERIANS. NIGERIANS NOT ASSOCIATED CURRENTLY WITH THE BANKS WILL DOMINATE BOARDS OF DIRECTORS. FMG SUCCESSFULLY REJECTED BANK DEMANDS FOR MANAGEMENT CONTRACTS. FINAL SETTLEMENT PAPERS WILL BE DRAFTED SOLELY BY FMG. EVEN IF NEW BANK/FMG UNDERSTANDING WORKS OUT, LIKELY THAT THERE ARE LEAN TIMES AHEAD FOR THE MERCHANT BANKS. CAPITULATION OF THE OTHER BANKS MAKES CITIBANK'S BID FOR A RESIDUAL PRESENCE HERE PROBLEMATIC. END SUMMARY.

1. IN MEETING WITH EMBOFFS, PETER BATES, MANAGER OF CHASE MANHATTAN HERE, SAID THAT CHASE HAD AGREED TO FOLLOWING TERMS:

A) CHASE WILL SELL 60 PERCENT OF EQUITY SHARES TO FMG.

B) AGREED PRICE PER SHARE IS NAIRA 1 Kobo 24 (PAR VALUE NAIRA 1)

WITH THE TOTAL AMOUNT TO BE PAID IN NEW YORK BY SEPTEMBER 30.

C) FMG WILL CONTROL 3 OF 5 SEATS ON BOARD OF DIRECTORS, INCLUDING

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CHAIRMAN.

D) THE BANK WILL RETAIN THE "CHASE MANHATTAN" NAME. ALTHOUGH NOT EXPLICITLY STATED IN THE AGREEMENT, IT IS UNDERSTOOD THAT THE FMG WILL NOT GIVE CHASE A MANAGEMENT CONTRACT. CHASE IS SUBMITTING A MEMO OUTLINING ITS INTERPRETATION OF THE AGREEMENT; NONETHELESS, THE FMG HAS MADE CLEAR THAT IT ALONE WILL DRAFT THE FINAL AGREEMENT DOCUMENT. NO NEW CHANGES IN CHASE'S LOAN PORTFOLIO WERE SOUGHT BY THE FMG DURING THE NEGOTIATIONS. EVENTUAL SALE OF PART/ALL FMG HELD EQUITY WAS NOT DISCUSSED.

2; ACCORDING TO MARTIN WHITE, MANAGER OF FIRST CHICAGO BANK HERE, CHICAGO HAS SIGNED A SIMILAR "HEADS OF AGREEMENT" EXCEPT THAT THE BANK HAS SECURED RIGHT TO OPERATE HERE UNDER DIFFERENT NAME, AND A VERBAL PROMISE THAT THE NEW BOARD OF DIRECTORS "WILL CONSIDER" THE QUESTION OF A MANAGEMENT CONTRACT.

3. TOTAL ACCEPTANCE OF FMG DEMANDS BY OTHER MERCHANT BANKS HAS PUT CITIBANK'S STRATEGY TO KEEP A RESIDUAL PRESENCE IN NIGERIA IN JEOPARDY. POSSIBLE THAT FMG WILL SINGLE OUT CITIBANK FOR "NOT COOPERATING" AND NOT AUTHORIZE A CITIBANK CONTROLLED "FINANCIAL SERVICES COMPANY." IF SO, MOST LIKELY CITIBANK RESPONSE WILL BE TO VISIBLY CLOSE UP SHOP BUT MAINTAIN A LISTENING POST HERE THROUGH THE INTERNATIONAL BANK FOR WEST AFRICA (IBWA) WHICH IS PARTLY OWNED BY CITIBANK. CITIBANK ALREADY SEEMS TO BE ANTICIPATING THE WORST AND IS OFFERING TO SELL PARTS OF ITS LOAN PORTFOLIO TO BANKS AROUND TOWN INCLUDING IBWA.

4. THE BANKING COMMUNITY HAS BEEN SHAKEN EVERY TWO OR THREE MONTHS FOR THE PAST YEAR WITH COUPS, REVOCABLE IRREVOCABLE LETTERS OF CREDIT, PORT CARGO CLEARANCE CERTIFICATES (PCCC), AND INDIGENIZATION, EACH OF WHICH HAVE RESULTED IN NEW GROUND RULES. THUS, IT IS NOT SURPRISING THAT NO ONE, INCLUDING THE FMG, REALLY KNOWS IF THE BANKS' ACCEPTANCE OF FMG INDIGENIZATION TERMS WILL RESULT IN SOUGHT AFTER LONG-TERM BASIS OF UNDERSTANDING BETWEEN BANKS AND FMG. NEVERTHELESS, FOR MOMENT AT LEAST, THE MERCHANT BANKS ARE IN FOR LEAN TIMES. STRAIGHT MERCHANT BANKING FUNCTIONS ACCOUNT FOR ONLY 20-25 PERCENT OF THEIR PRE-APRIL INCOME WHEN THEY WERE ALSO ENGAGED IN COMMERCIAL OPERATIONS; SINCE THE COST OF LONG-TERM MONEY TO BANKS HERE IS ROUGHLY 6 PERCENT AND THE PRIME LENDING RATE VARIES BETWEEN 6-10 PERCENT, PROFIT MARGINS MAY BECOME THIN INDEED, ESPECIALLY IF THE FMG INSISTS THAT THE BANKS LEND MORE TO LIMITED OFFICIAL USE

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"PRODUCTIVE" SECTORS (E.G., AGRICULTURE) AT LOWER INTEREST RATES OF 6-8 PERCENT.

5. MERCHANT BANK STRATEGY ESSENTIALLY REDUCED TO HOLDING ON FOR BETTER TIMES. ONE SOURCE OF ENCOURAGEMENT IS BANKING STUDY COMMISSION WHICH MAY RECOMMEND THAT ALL BANKING CATEGORIES BE ABOLISHED, THUS ALLOWING THE MERCHANT BANKS TO RESUME PROFITABLE COMMERCIAL BANK OPERATIONS. IT IS TOO EARLY TO SAY WHETHER THIS

HAS ANY SUBSTANCE OR IS MERELY WHITLING IN THE DARK. A MORE TANGIBLE HOPE IS THAT FMG WILL SELL SOME OF ITS EQUITY TO THE STATE GOVERNMENTS (LAGOS STATE IS REPORTEDLY INTERESTED) OR TO THE NIGERIAN PRIVATE SECTOR. IF SO, CHASE, FIRST CHICAGO, AND BANK OF AMERICA COULD END UP AS LARGEST SHAREHOLDERS AND THUS BE IN POSITION TO EXERCISE MANAGERIAL CONTROL. HOWEVER, FMG STILL HAS NOT TAKEN ANY CONCRETE STEPS INDICATING THAT IT WILL SELL SHARES.

6. COMMENT: ALTHOUGH FMG REPS WERE CORDIAL THROUGHOUT THEIR TALKS WITH THE BANKS, THERE WERE NEVER ANY TRUE NEGOTIATIONS. FMG DICTATED ITS POSITION AND GAVE THE BANKS TWO OPTIONS: (1) TO STAY OF FMG TERMS, OR (2) GET OUT. THE MAIN ISSUE FOR BOTH THE BANKS AND FMG WAS CONTROL. SELLING PRICE PER SHARE WAS ALMOST INCIDENTAL. CHASE CONSIDERED THE FMG OFFERED PRICE GOOD. OTHER BANKS CONFIRM THIS VIEW.

7. FMG WAS ABLE TO TAKE HARDNOSED STAND BECAUSE BANKS, PARTICULARLY MERCHANT BANKS, WERE ALREADY ON DEFENSIVE IN PUBLIC EYE. FOREIGN MERCHANT BANKS WERE CRITICIZED, TO A DEGREE UNFAIRLY, FOR THEIR NONRESPONSIVENESS TO FMG DEVELOPMENT GOALS. MERCHANT BANKS ALSO HURT BY TAINT OF PROFIT GOUGING FROM TECHNICALLY ILLEGAL COMMERCIAL BANK OPERATIONS. IN ADDITION, EXCESS LIQUIDITY THROUGHOUT NIGERIAN BANKING SECTOR WOULD HAVE SOFTENED, AT LEASE TEMPORARILY, THE BLOW OF A POTENTIAL PULLOUT OF ANY ONE OR SOME OF THE BANKS. FINALLY, FOREIGN MERCHANT BANKS' SMALL PORTFOLIOS RELATIVE TO THE ENTIRE BANKING PICTURE MADE THEM ESPECIALLY VULNERABLE. THE BANKS' TARNISHED VISIBILITY AND VULNERABILITY MADE THEM, ALONG WITH THE 122 PETTY ALIEN FIRMS CLOSED BY GOVERNMENT ORDER (REF B), EASY TARGETS FOR FMG STRATEGISTS WHO WANTED TO GET THE SECOND PHASE OF INDIGENIZATION OFF TO A STRONG AND WELL PUBLICIZED START. THEIR CAPITULATION IS DISCOURAGING PRECEDENT FOR OTHER FOREIGN COMPANIES WHO HOPE TO WRI  
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CONCESSIONS IN UPCOMING INDIGENIZATION NEGOTIATIONS.  
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